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T R A F I N A  
E N E R G Y L T D.

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A N N U A L  
R E P O R T

## ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held on July 18, 2000, at 9:15 am in the Second Floor Conference Room of 505 - 3rd Street SW, Calgary, Alberta. The Board of Directors, Management and Staff of TRAFINA welcome the opportunity to meet shareholders and interested persons. **Shareholders unable to attend the meeting are asked to complete and return the Proxy Form mailed with the Annual Report.**

## TRAFINA'S WAYS

**Honesty and Integrity:** *We wish to act fairly in our business dealings.*

**Achievement:** *We try to make our contributions to others and ourselves.*

**Communication:** *We try to have open and honest communications in all our workings.*

**Pollution Prevention:** *Continually improve our processes to minimize pollution and waste.*

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## GLOSSARY OF ABBREVIATIONS

|              |                                  |             |                                    |
|--------------|----------------------------------|-------------|------------------------------------|
| AB .....     | Province of Alberta              | MBOE .....  | Thousand Barrels of Oil Equivalent |
| API .....    | American Petroleum Institute     | Mcf .....   | Thousand Cubic Feet                |
| ARTC .....   | Alberta Royalty Tax Credit       | Mcf/d ..... | Thousands of Cubic Feet per Day    |
| AEUB .....   | Alberta Energy Utilities Board   | Mmcf .....  | Millions of Cubic Feet             |
| Ave. ....    | Average                          | NGLs .....  | Natural Gas Liquids                |
| Bbl .....    | Barrel of Oil                    | PV .....    | Present Worth Value                |
| Bbls .....   | Barrels of Oil                   | APO .....   | After Payout                       |
| Bbls/d ..... | Barrels per Day                  | BPO .....   | Before Payout                      |
| MBbls .....  | Thousands of Barrels             | GORR .....  | Gross OVERRIDING Royalty           |
| Bcf .....    | Billion Cubic Feet               | NCI .....   | Net Carried Interest               |
| BOE .....    | Barrel of Oil Equivalent         | NEB .....   | National Energy Board of Canada    |
| BOE/d .....  | Barrel of Oil Equivalent per Day | WTI .....   | West Texas Intermediate            |
| M .....      | Thousand                         | WI .....    | Working Interest                   |
| MM .....     | Million                          |             |                                    |

|                    |                  |                        |              |                |           |
|--------------------|------------------|------------------------|--------------|----------------|-----------|
| <b>MAP SYMBOLS</b> | TRAFINA Gas Well | Proposed 2000 Location | Seismic Line | Gathering Line | Gas Plant |
|                    | TRAFINA Oil Well | TRAFINA Land           |              |                |           |

**HIGHLIGHTS**

|                                                  | 1999      | 1998      | % Change |
|--------------------------------------------------|-----------|-----------|----------|
| <b>FINANCIAL</b>                                 |           |           |          |
| Revenue from oil and gas sales (\$)              | 1,186,216 | 985,832   | +20      |
| Cash flow from operations (\$)                   | 437,936   | 348,861   | +26      |
| Per share (\$)                                   |           |           |          |
| -basic                                           | 0.10      | 0.08      | +25      |
| -fully diluted                                   | 0.09      | 0.07      | +29      |
| Income before tax (\$)                           | 203,170   | 131,619   | +54      |
| Net income (loss) (\$)                           | 112,185   | 71,619    | +57      |
| Per share (\$)                                   |           |           |          |
| -basic                                           | 0.03      | 0.02      | +50      |
| -fully diluted                                   | 0.02      | 0.02      | 0        |
| Weighted average shares outstanding              | 4,310,586 | 4,431,969 | -3       |
| Outstanding shares at year end                   | 4,188,250 | 4,379,250 | -4       |
| Capital expenditures (\$)                        | 301,096   | 387,714   | -22      |
| Long term debt, net of working capital (\$)      | 717,321   | 812,089   | -12      |
| <b>OPERATING</b>                                 |           |           |          |
| Production                                       |           |           |          |
| Natural gas (Mcf/d)                              | 1,127.0   | 1,243.0   | -9       |
| Natural gas liquids (Bbls/d)                     | 7.1       | 4.0       | +78      |
| Crude oil (Bbls/d)                               | 17.7      | 12.0      | +48      |
| Total (BOE/d)                                    | 137.5     | 140.3     | -2       |
| BOE/d per weighted average MM shares outstanding | 31.9      | 31.6      | +1       |
| Average sales price                              |           |           |          |
| Natural gas (\$/Mcf)                             | 2.45      | 2.20      | +11      |
| Natural gas liquids (\$/Bbl)                     | 16.53     | 13.77     | +20      |
| Crude oil (\$/Bbl)                               | 20.32     | 12.14     | +67      |
| Total BOE (\$/BOE)                               | 23.56     | 19.15     | +23      |
| Reserves (proven and probable)                   |           |           |          |
| Natural gas (Mmcf)                               | 4,111.0   | 5,543.0   | -26      |
| Oil and natural gas liquids (MBbls)              | 102.9     | 114.9     | -10      |
| Total BOE (MBbls)                                | 514.0     | 669.3     | -23      |

## REPORT TO SHAREHOLDERS

- ◆ Revenues up 20%
- ◆ Cash flow up 26%
- ◆ Net earnings up 57%
- ◆ Rate of return pre-tax on share holder equity up 47%
- ◆ Bank debt net of working capital reduced by 12%

TRAFINA completed another year in 1999, showing consistent growth in revenues, cash flows, earnings, and rate of return on shareholder equity.

### 1999 HIGHLIGHTS

TRAFINA's most significant events that occurred during 1999 are:

- ◆ Revenues increased by 20% to \$1.19 million, cash flows were up by 26% to \$437,936, and after tax earnings were up by 57% over 1998 year-end results. Cash flow per share increased by 25% to 10¢ per share, up from 8¢ in 1998. Earnings for the period increased to 3¢ per share to December 31, 1999 compared to 2¢ in 1998.
- ◆ TRAFINA exited December 1999 at 145 BOE/d. Production during 1999 was flat due to plant turnarounds in and a reduction of production from the Bindloss 6-28 well, up from 113 BOE/d in 1998. Natural gas production decreased by 9% to 1,127 Mcf/d in 1999, compared to 1,243†Mcf/d in 1998. Oil and natural gas liquids increased by 55% to 24.8†Bbls/d in 1999, up from 16†Bbls/d in 1998.
- ◆ During 1999, TRAFINA earned a 28% pre-tax rate of return on shareholder equity, up 47%, compared to 19% earned in 1998.

### GOING FORWARD

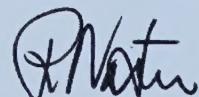
TRAFINA recorded consistent increases in cash flow, earnings, retained earnings and rate of return on shareholders equity. These increases were all achieved on the pathway through year when managing oil and gas assets has meant a more hands-on approach to increasing the rate of return on shareholder equity.

The achievements of 1999 will serve as the basis to build and move forward in 2000 as we look forward to participating in drilling 5 to 8 new prospects and completing further financial arrangements to increase our drilling activities. Three of these wells will be drilled in the first quarter, a fourth well is planned for the second quarter, and the balance of our drilling plans to be completed during the last half of the year.

### ACKNOWLEDGMENTS

We are conscious of the patient support of our shareholders as we move forward and would like to acknowledge their support, as well as the support of our staff, stakeholders and clients.

On behalf of the Board,



Roland T. Valentine

## OPERATIONS REVIEW

The majority of TRAFINA's producing core areas are non-operated. Due to weak oil and gas prices during the first half of 1999, operators curtailed drilling plans until the fall and winter months of the year, or 2000. TRAFINA participated in the workovers of three wells in the Carson Creek and Jenner areas. One suspended well was re-activated in the Jenner area.

## PRODUCTION

TRAFINA's 1999 annual production averaged 138 BOE/d. TRAFINA's gas sales averaged 1,127 Mcf/d, down 9.4% compared to 1998. Lower gas sales from the Bindloss 6-28-22-05 W4 and Carson Creek 6-18-61-11 W5 wells were partially offset by the re-activation of the Atlee Buffalo 8-25-21-06 W4 well. Oil and NGL's production was up 55% during 1999 due to more producing time for the Jenner Sec 26-21-08 W4 oil wells plus a full year of production for the Judy Creek 7-8-63-11 W5 gas well.

Comparative production statistics by field for 1999 and 1998 are tabulated below:

| Production by Area                | Company Share before Royalty |              |             |
|-----------------------------------|------------------------------|--------------|-------------|
|                                   | 1999                         | 1998         | % Change    |
| <b>Natural gas (Mcf/d)</b>        |                              |              |             |
| Bindloss                          | 375                          | 520          | -28         |
| Carson Creek                      | 373                          | 423          | -12         |
| Jenner                            | 219                          | 160          | +37         |
| Judy Creek                        | 80                           | 39           | +105        |
| Wetaskiwin                        | 80                           | 102          | -22         |
|                                   | <u>1,127</u>                 | <u>1,244</u> | <u>-9.4</u> |
| <b>Oil &amp; NGL's (Bbls/day)</b> |                              |              |             |
| Carson Creek                      | 2                            | 2            | 0           |
| Jenner                            | 18                           | 12           | +50         |
| Judy Creek                        | 5                            | 2            | +150        |
|                                   | <u>25</u>                    | <u>16</u>    | <u>+56</u>  |
| <b>Oil Equivalents (BOE/d)</b>    |                              |              |             |
|                                   | 138                          | 140          | -1          |

## OIL AND GAS RESERVES

TRAFINA remains primarily a natural gas producer, with natural gas and natural gas liquids comprising 81% of TRAFINA's proved and probable reserve base at year-end 1999.

TRAFINA's proved and probable reserves at year-end 1999 were estimated to be 513,967 BOE. Production during 1999 was 50,193 BOE. Proved and probable oil and natural gas liquids reserves were 102,867 Bbls, while proved and probable natural gas reserves were 4,111 Mmcf.

## RESERVES

| Reserve Category                                   | Company Interest Reserves before Royalties |                     |                                       |
|----------------------------------------------------|--------------------------------------------|---------------------|---------------------------------------|
|                                                    | Oil & NGLs<br>Bbls                         | Natural Gas<br>Mmcf | Oil Equivalents<br>BOE <sup>(3)</sup> |
| Proved and probable (Dec. 31, 1998) <sup>(1)</sup> | 114,945                                    | 5,543               | 669,245                               |
| Total proved <sup>(2)</sup>                        | 60,959                                     | 3,915               | 452,459                               |
| Probable (unrisked) <sup>(2)</sup>                 | 41,908                                     | 196                 | 61,508                                |
| Proved and probable (Dec. 31, 1999) <sup>(2)</sup> | 102,867                                    | 4,111               | 513,967                               |

<sup>(1)</sup> From independent reserve appraisals prepared by Sproule Associates Limited dated February 22, 1999 and by Ryder Scott Company dated February 25, 1999.

<sup>(2)</sup> From independent reserve appraisals prepared by Sproule Associates Limited dated March 14, 2000 and by Ryder Scott Company dated May 4, 2000. Sproule and Ryder Scott evaluated the same geographic areas at year-ends 1998 and 1999.

<sup>(3)</sup> Oil equivalents calculated by TRAFINA using Sproule's and Ryder Scott's reserve volumes, converting natural gas and natural gas liquids to oil equivalents using conversion ratios of 10.0:1 and 1.0:1.0, respectively.

TRAFINA's reserves by geographic area are set forth below:

| Reserves by Area | Oil & NGLs<br>Bbls | Natural Gas<br>Mmcf | Oil Equivalents<br>BOE | % of<br>Total |
|------------------|--------------------|---------------------|------------------------|---------------|
| Proved reserves  |                    |                     |                        |               |
| Bindloss         | 0                  | 1,444               | 144,400                | 31.9          |
| Carson Creek     | 3,300              | 978                 | 101,100                | 22.4          |
| Jenner           | 54,359             | 689                 | 123,259                | 27.2          |
| Judy Creek       | 3,300              | 54                  | 8,700                  | 1.9           |
| Wetaskiwin       | 0                  | 750                 | 75,000                 | 16.6          |
|                  | 60,959             | 3,915               | 452,459                | 100.0         |

#### Probable Reserves

|          |        |     |        |       |
|----------|--------|-----|--------|-------|
| Bindloss | 0      | 15  | 1,500  | 2.4   |
| Jenner   | 41,908 | 181 | 60,008 | 97.6  |
|          | 41,908 | 196 | 61,508 | 100.0 |

#### RECONCILIATION OF RESERVES

Changes to TRAFINA's proved and probable reserves during the period December 31, 1996 through December 31, 1999 are tabulated below:

| Reserve Changes           | Oil & NGLs (MBbls) |          |       | Natural Gas (Mmcf) |          |        |
|---------------------------|--------------------|----------|-------|--------------------|----------|--------|
|                           | Proved             | Probable | Total | Proved             | Probable | Total  |
| Dec. 31, 1996             | 44.3               | 42.3     | 86.6  | 3,090              | 1,036    | 4,126  |
| Acquisitions/dispositions | 0                  | 0        | 0     | -20                | 0        | -20    |
| Additions/revisions       | 5.0                | -3.0     | 2.0   | 711                | 755      | 1,466  |
| 1997 Production           | -3.9               | 0        | -3.9  | -373               | 0        | -373   |
| Dec. 31, 1997             | 45.4               | 39.3     | 84.7  | 3,408              | 1,791    | 5,199  |
| Acquisitions/dispositions | 0                  | 0        | 0     | 0                  | 0        | 0      |
| Additions/revisions       | 64.4               | -28.2    | 36.2  | 1,987              | -1,189   | 798    |
| 1998 Production           | -5.9               | 0        | -5.9  | -454               | 0        | -454   |
| December 31, 1998         | 103.9              | 11.1     | 115.0 | 4,941              | 602      | 5,543  |
| Acquisitions/dispositions | 0                  | 0        | 0     | 0                  | 0        | 0      |
| Additions/revisions       | -33.8              | 30.8     | -3.0  | -615               | -406     | -1,021 |
| 1999 Production           | -9.1               | 0        | -9.1  | -411               | 0        | -411   |
| December 31, 1999         | 61.0               | 41.9     | 102.9 | 3,915              | 196      | 4,111  |

Proved oil reserves were reduced by 33,800 Bbls during 1999 mainly for the Atlee Buffalo 8-25-21-6 W4 well, which was re-activated during July 1999 but produced mainly gas with limited amounts of oil. The oil remains in the reservoir but will require the installation of an enhanced recovery project for its recovery. Probable oil reserves were added in the Jenner Sec 26-21-08 W4 property based upon the successful results from two new horizontal wells drilled subsequent to year-end 1999.

Proved and probable natural gas reserves were reduced by 1,021 Mmcf during 1999. Reductions were made to reserves in the West Bindloss and Wetaskiwin areas while additions were made in the Carson Creek area.

## FUTURE NET CASH FLOWS

### Present Values

Based upon Sproule's and Ryder Scott's reserve appraisals, the before tax present value of TRAFINA's proved and probable reserves (future net revenue discounted at 10%) at year-end 1999 is \$4.5 million.

| Reserve Class                             | Present Value of Future Net Revenue before Tax |                 |                 |
|-------------------------------------------|------------------------------------------------|-----------------|-----------------|
|                                           | Undiscounted<br>(\$ 000)                       | 10%<br>(\$ 000) | 15%<br>(\$ 000) |
| Total proved plus probable December 31/98 | 9,670                                          | 5,367           | 4,439           |
| Total proved                              | 6,930                                          | 4,036           | 3,385           |
| Probable (unrisked)                       | <u>870</u>                                     | <u>466</u>      | <u>361</u>      |
| Total proved plus probable December 31/99 | 7,800                                          | 4,502           | 3,746           |

Future net revenues is TRAFINA's share of revenues from the sale of hydrocarbons less royalties, operating costs and future development costs plus ARTC but prior to any provision for income taxes, overhead and interest costs. It should not be assumed that the discounted value of estimated future net revenues is representative of the fair market value of TRAFINA's reserves.

Actual selling prices for TRAFINA's production between January and May 2000 have been considerably higher than those forecast in Sproule and Ryder Scott's appraisals. This is especially true for uncontracted gas sold into the intra-Alberta market where term prices net of transportation for the next year are approximately \$4.00/Mcf compared to \$2.84/Mcf and \$2.79/Mcf forecast by Sproule and Ryder Scott.

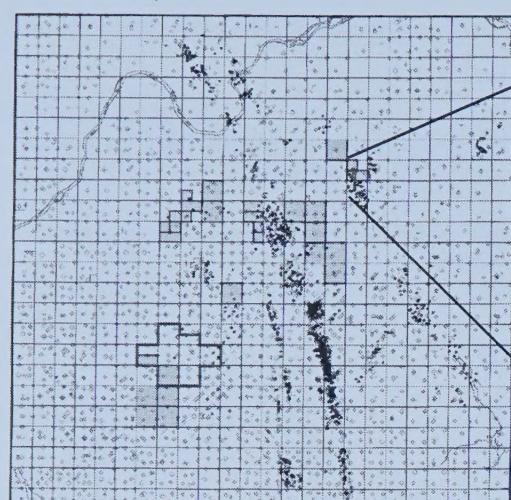
## LAND REVIEW

TRAFINA has interests in 107,120 gross acres (6,656 net acres) as at December 31, 1999. TRAFINA has acquired new land in three new areas in 1999, of which we have added to our total acres 3,820 net undeveloped acres.

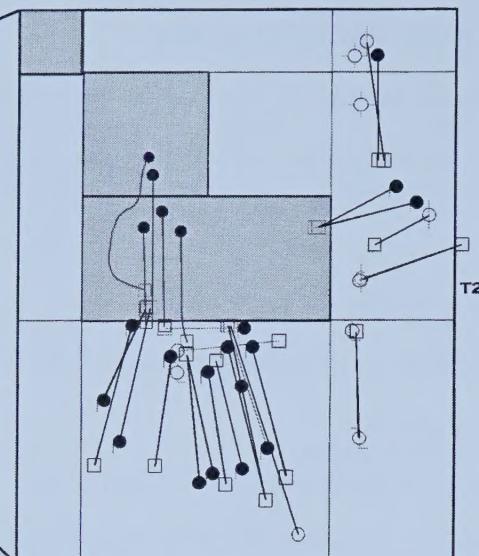
| ALBERTA              | DEVELOPED |       | UNDEVELOPED |       | TOTAL AREA |       |
|----------------------|-----------|-------|-------------|-------|------------|-------|
|                      | Gross     | Net   | Gross       | Net   | Gross      | Net   |
| Bindloss             | 28,160    | 963   | 49,120      | 1,681 | 77,280     | 2,644 |
| Carson & Judy Creek  | 4,320     | 370   | 3,520       | 352   | 7,840      | 722   |
| Jenner/Atlee Buffalo | 9,600     | 508   | 5,280       | 385   | 14,880     | 893   |
| Wetaskiwin           | 2,240     | 318   | 3,280       | 1,040 | 5,520      | 1,358 |
| Other                | 0         | 0     | 1,600       | 1,600 | 1,600      | 1,600 |
| Total (acres)        | 44,320    | 2,159 | 62,800      | 5,058 | 107,120    | 7,217 |

## MAJOR PROPERTIES

Jenner, AB



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R8W4

○ TRAFINA Horizontal legs  
■ TRAFINA Land Interest

Alberta

Carson Creek/Judy Creek

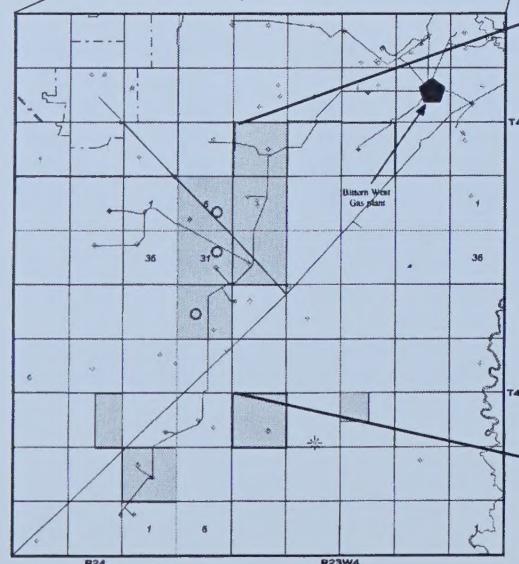
Edmonton

Calgary

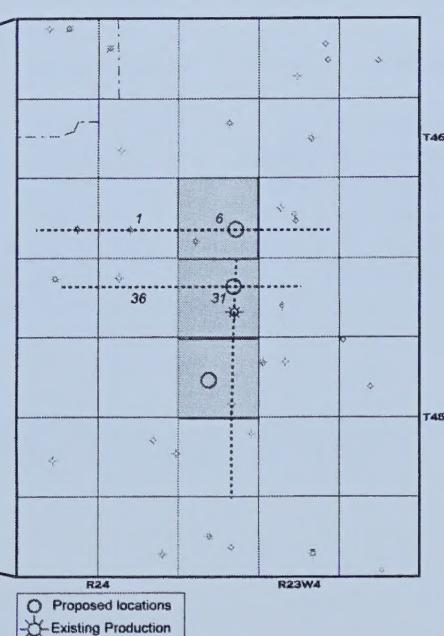
Medicine Hat

Lethbridge

Wetaskiwin, AB



Refer to page 8



○ Proposed locations  
○ Existing Production  
--- TRAFINA Seismic Lines

## MAJOR PROPERTIES

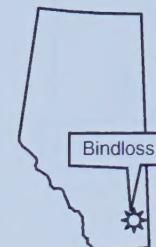
### BINDLOSS, ALBERTA

GAS

In the Bindloss area, TRAFINA has a 3.42% NCI in the Bindloss Unit No. 1 (the "Unit") plus a 10% NCI on 1920 acres of non-unitized deeper rights with one producing Mannville gas well.

The Bindloss Unit No.1 produces gas from the Viking Formation and has produced over 312 Bcf since production began during 1957. TRAFINA's share of the gas sales from the Unit averaged 288 Mcf/d during 1999 compared to 290 Mcf/d during 1998. TRAFINA's average 1999 selling price was \$2.36/Mcf compared to \$2.01/cf during 1998. The gas is contracted to TransCanada Gas Services under a long-term sales contract.

|                      |                                                                                                                                        |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| Lands                | 77,280 acres (gross), 2,643 acres (net)                                                                                                |
| Interests            | Gas Unit #1: 3.42% NCI, Non-unit: 10.0 NCI                                                                                             |
| Wells                | 50 (gross), 24 (producing)                                                                                                             |
| Producing Zones      | Viking (unitized zone)                                                                                                                 |
| Est. Proved Reserves | Lower Mannville (non-unit)<br>Unit: 37.0 Bcf (gross), 0.9 Bcf (net)                                                                    |
| 1999 Production      | Non-Unit: 2.3 Bcf (gross), 0.2 Bcf (net)                                                                                               |
| 2000 Activity        | 9,282 Mcf/d (gross), 375 Mcf/d (net)<br>Potential workovers to activate shut-in wells presently incapable of production due to damage. |



Ryder Scott estimates the Unit's remaining proved reserves exceed 37 Bcf with a remaining reserve life in excess of 50 years. This long reserve life results from the low well density within the Unit area of 77,280 acres (120.75 sections) with only 23 producing wells. During 2000, the Operator plans to investigate means to accelerate production through activation of shut-in wells and/or drilling new wells.

In the West Bindloss area, total gas produced from the non-unitized Mannville Formation from the 06-28-22-05 W4/00 well declined from approximately 1,700 Mcf/d during January 1999 to 245 Mcf/d during December 1999. Consequently, TRAFINA's share of gas sales during 1999 averaged 88 Mcf/d, down from 230 Mcf/d during 1998. The Operator did a workover on this well in the 4th quarter of 1999 to repair a leak in the tubing of this dually-completed well and to obtain a reservoir pressure. Since no conclusive reasons were found for the wells production decline, the Operator is unsure if this well can be restored to its former productivity.

### CARSON CREEK, ALBERTA

GAS

Carson Creek remains an important core property for TRAFINA, contributing over 28% of total production volumes during 1999. Gross Company production during 1999 averaged 374 Mcf/d of gas and 1.6 Bbl/d of NGLs compared to 423 Mcf/d of gas and 1.8 Bbl/d of NGLs during 1998.

|                      |                                                                                                                        |
|----------------------|------------------------------------------------------------------------------------------------------------------------|
| Lands                | 7,200 acres (gross), 674 acres (net)                                                                                   |
| Interests            | Generally 10% WI                                                                                                       |
| Wells                | 7 (gross), 5 (producing)                                                                                               |
| Producing Zones      | Nordeg, Pekisko, Notikewin, Viking                                                                                     |
| Est. Proved Reserves | Gas: 10.9 Bcf (gross), 1.0 Bcf (net)                                                                                   |
| 1999 Production      | NGLs: 78.4 MBbl (gross), 6.6 MBbl (net)                                                                                |
| Carson Creek         | Gas: 4,205 Mcf/d (gross), 374 Mcf/d (net)                                                                              |
| 2000 Activity        | NGLs: 16 Bbl/d (gross), 2 Bbl/d (net)<br>Drill 1 development well, 1 exploratory well, install additional compression. |



The majority of the Company's gas is produced from wells completed in the Carson Creek Nordeg "A" pool. TRAFINA has a 10% working interest in these lands, which contain 2 producing gas wells and 2 shut-in wells awaiting installation of additional compression.

During 1999, the Operator undertook several exploitation projects intended to maximize production from the Carson Creek South Gas Project. A 3.5 km inter-connection to the Petro-Canada Whitecourt Gas Gathering System was installed to ensure adequate sour gas processing capacity was available for the Joint Venture's gas. Major workovers were attempted on two existing wellbores intended to establish gas production from the Pekisko formation. The Pekisko formation was incapable of sustained production against 550 psig line pressure and these zones remain shut-in.

The Joint Venture plans to install additional compression at the Carson Creek East Sour Gas Processing Facility during the 2nd quarter 2000. This will allow the line pressure in the gathering system to be lowered and gross production levels increased by at least 2 Mmcf/d (200 Mcf/d TRAFINA's share).

Approximately 36 km of new 2-D seismic was shot and processed during the 2nd quarter of 1999. Using this seismic data, one additional Nordeg development well was drilled at 14-08-61-11 W5M during March 2000. The 14-08 well will be tied into during 2nd quarter 2000. Also, one exploratory location was defined by this new seismic and will likely be drilled later in year 2000.

### JUDY CREEK, ALBERTA

TRAFINA has a 7.5% pooled interest in one section in the Judy Creek area containing one producing Notikewin gas well. Since the 7-8 well commenced production during September 1998, year - over - year production comparisons are misleading.



Judy Creek

Gross gas sales rates fell from 1,471 Mcf/d during January 1999 to 745 Mcf/d during December 1999 due to a decline in the well's flowing pressure. The Operator is now reviewing compression for the whole gathering system as a means to increase gas sales.

|                      |                                                                                                                              |
|----------------------|------------------------------------------------------------------------------------------------------------------------------|
| Lands                | 640 acres (gross), 48 acres (net)                                                                                            |
| Interests            | 7.5% pooled WI                                                                                                               |
| Wells                | 1 (gross), 1 (producing)                                                                                                     |
| Est. Proved Reserves | Gas: 724 Mcf/d (gross), 54 Mcf/d (net)<br>NGLs: 44.6 Bbl/d (gross), 3.3 Bbl/d (net)<br>NGLs: 65 Bbl/d (gross), 5 Bbl/d (net) |
| 1999 Production      | Gas: 1,065 Mcf/d (gross), 80 Mcf/d (net)<br>NGLs: 65 Bbl/d (gross), 5 Bbl/d (net)                                            |
| 2000 Activity        | Install compression.                                                                                                         |

### JENNER, ALBERTA

Jenner has become TRAFINA's largest producing area with 1999 production of 40 BOE/d (219 Mcf of gas and 18 Bbl/d of oil and NGL's), up 43% from 1998 production of 28 BOE/d.

During July 1999, one shut-in Glauconite oil well was re-activated after being shut-in for 13 years.

|                      |                                                                                                                   |
|----------------------|-------------------------------------------------------------------------------------------------------------------|
| Lands                | 14,880 acres (gross), 893 acres (net)                                                                             |
| Interests            | Varying working and royalty                                                                                       |
| Wells                | 30 (gross)                                                                                                        |
| Producing Zones      | Milk River, Medicine Hat, Second White Specks, Glauconite, and Arcs                                               |
| Est. Proved Reserves | Gas: 9.2 Bcf (gross), 0.7 Bcf (net)<br>Oil & NGLs: 540.0 MBbl (gross), 54.4 MBbls (net)                           |
| 1999 Production      | Gas: Est. 2,200 Mcf/d (gross), 219 Mcf/d (net)<br>Oil & NGLs: Est. 190 Bbl/d (gross), 18 Bbl/d (net)              |
| 2000 Activity        | Two horizontal oil wells were drilled between March - April 2000. Possibility of 2 additional wells in late 2000. |

The 8-25 well is producing approximately 10 Bbl/d of oil and 500 Mcf/d of sales gas (8.4 BOE/d net to TRAFINA). Gas conserved from this well is sold to the area Operator at the intra-Alberta spot price, which has exceeded \$3.00/Mcf since the fall of 1999.

TRAFINA's Jenner lands contain substantial heavy oil reserves within the Glauconite formation. Realized prices at the wells ranged between \$5.59 Cdn/Bbl and \$11.15 Cdn/Bbl during the period January 1998 through February 1999. At these prices, there was no economic incentive to produce these reserves. Once world oil prices started to rebound during April 1999, the Operator took steps to raise production. On an annualized basis, TRAFINA's oils sales averaged 18 Bbl/day during 1999 compared to 12 Bbl/day during 1998.

Two additional horizontal Glauconite heavy oil wells were drilled in Jenner at the end of the 1st quarter of 2000. Both wells are awaiting tie-in. Depending upon the performance of these two horizontal wells, two more horizontals may be drilled during the 4th quarter of 2000. Realized wellhead prices presently exceed \$30.00 Cdn/Bbl for this oil as it has been up-graded with light oil.

### WETASKIWIN, ALBERTA

Gas produced from the 7-31-45-23 W4 well during 1999 averaged 80 Mcf/d, down from 102 Mcf/d during 1998. Although the Wetaskiwin area contributed only 6% of the Company's total 1999 production, it has the greatest potential of the existing core areas for production and reserve additions during the year 2000 and thereafter.

|                      |                                        |
|----------------------|----------------------------------------|
| Lands                | 5,520 acres (gross), 1,358 acres (net) |
| Interests            | Varying working and royalty            |
| Wells                | 6 (gross)                              |
| Producing Zones      | Glauconite, Basal Quartz, Belly River  |
| Est. Proved Reserves | 0.8 Bcf (gross), 0.8 Bcf (net)         |
| 1999 Production      | 80 Mmcf/d (gross), 80 Mcf/d (net)      |
| 2000 Activity        | 2 wells to be drilled in 2000          |

During 1999, TRAFINA purchased and reprocessed existing trade seismic to better define drillable prospects. Our geological and geophysical studies have identified at least 3 low-risk drillable locations.

TRAFINA's Wetaskiwin lands offer excellent economics since these lands are close to gross under-utilized gas infrastructure and are uncontracted. Intra-Alberta term gas prices are in excess of \$3.70/Mcf while transportation and processing fees are quite reasonable.

The first location that will be drilled lies within Sec 31-45-23 W4 and will be a replacement wellbore for the 7-31 well. Seismic data indicates that there is a more favorable drainage point in the NE/4 of Sec 31 to deplete the Wetaskiwin Glauconite "E" Pool.

Another of the drilling prospects lay on open Crown land, which was posted and purchased subsequent to year-end 1999.

## MANAGEMENT'S DISCUSSION & ANALYSIS

|                                        | 1999      | 1998    | %<br>CHANGE |
|----------------------------------------|-----------|---------|-------------|
|                                        | \$        | \$      |             |
| Gross Revenue                          | 1,186,216 | 985,832 | +20         |
| Royalties net of ARTC                  | 172,428   | 136,365 | +26         |
| Revenue, net of royalties and ARTC     | 1,013,788 | 849,467 | +19         |
| Operating expenses                     | 197,790   | 178,987 | +11         |
| Cash flow from operations              | 437,936   | 348,861 | +26         |
| Cash flow per share - basic            | 0.10      | 0.08    | +25         |
| - fully diluted                        | 0.09      | 0.07    | +29         |
| Net income (loss) before income taxes  | 203,170   | 131,619 | +54         |
| Net earnings (loss)                    | 112,185   | 71,619  | +57         |
| Net earnings (loss) per share - basic  | 0.03      | 0.02    | +50         |
| - fully diluted                        | 0.02      | 0.02    | 0           |
| Capital expenditures                   | 301,097   | 387,714 | -22         |
| Long-term debt, net of working capital | 717,321   | 812,089 | -12         |

## DETAILED FINANCIAL ANALYSIS

### PRODUCTION REVENUE

TRAFINA's petroleum and natural gas revenue, net of royalties, increased 19% to \$1,013,788 in 1999 from \$849,467 in 1998. The increase in production revenue was related to improved oil and liquids production volume and the increase in price of natural gas and oil.

### ROYALTIES

Total royalties, net of ARTC, increased 26% to \$172,428, or \$3.44 per BOE in 1999 from \$136,365, or \$2.67 in 1998 due to increased commodity prices and a reduction in ARTC payable. Royalties payable to the Province of Alberta are reduced through the Alberta Royalty Tax Credit program (ARTC). ARTC is reduced as the price of oil increases. For the year ended December 31, 1999, TRAFINA has been credited with a \$78,844 ARTC rebate compared to \$95,072 for the same period in 1998.

#### Analysis of Royalties

|                            | 1999           | 1998           | %<br>CHANGE |
|----------------------------|----------------|----------------|-------------|
|                            | \$             | \$             |             |
| Crown royalty              | 198,973        | 191,714        | +4          |
| Freehold royalty           | 16,989         | 9,525          | +78         |
| Overriding royalty         | 35,310         | 30,198         | +17         |
| Alberta Royalty Tax Credit | (78,844)       | (95,072)       | -17         |
| <b>Total royalties</b>     | <b>172,428</b> | <b>136,365</b> | <b>+27</b>  |

### OPERATING EXPENSES

Total operating expenses increased 11% to 197,790 to December 31, 1999 as a result of a one-time workover of one of the facilities in Bindloss during December and partial production years for wells in the Judy Creek and Jenner areas of Alberta.

#### Analysis of Operating Expenses

|                                 | 1999<br>\$       | 1998<br>\$       | %<br>CHANGE |
|---------------------------------|------------------|------------------|-------------|
| Production expenses             | 190,935          | 171,554          | +11         |
| Lease rental expenses           | 6,855            | 7,433            | -8          |
| <b>Total operating expenses</b> | <b>\$197,790</b> | <b>\$178,987</b> | <b>+11</b>  |

### NETBACKS

TRAFINA's average operating netback increased 24% to \$16.18 per BOE, to December 31, 1999, from \$13.00 per BOE last year. This change is due to the increases in the contracted sales prices of oil and natural gas, and increased liquids and oil production. The following table compares netbacks of 1999 and 1998.

#### Analysis of Netbacks

|                                  | 1999<br>\$/BOE | 1998<br>\$/BOE | %<br>CHANGE |
|----------------------------------|----------------|----------------|-------------|
| Sales price                      | 23.56          | 19.15          | +23         |
| Royalties (net of ARTC)          | (3.44)         | (2.67)         | +29         |
| Operating expenses               | (3.94)         | (3.34)         | +14         |
| Lease rental                     | (0.14)         | (0.15)         | -7          |
| <b>Average operating netback</b> | <b>16.04</b>   | <b>13.00</b>   | <b>+24</b>  |

### GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses, before capitalization, and allocation to gain on sales of fixed assets, increased 4% to \$402,266 to December 31, 1999 compared to \$388,098 in 1998. On a net basis, general and administration expenses increased 21% to \$312,022 to December 31, 1999 compared to \$258,157 in 1998, mainly due to a 31% reduction in capitalized expenditures to \$90,244 versus \$129,891 in 1998.

### BANK CHARGES

Bank charges decreased by 41% to \$2,057 to December 31, 1999 compared to \$3,479 to December 31, 1998 due to a larger use of our banking arrangements.

#### Analysis of Bank Charges

|              | 1999<br>\$ | 1998<br>\$ | %<br>Change |
|--------------|------------|------------|-------------|
| Bank Charges | 2,057      | 3,479      | -41         |

**INTEREST EXPENSES**

Interest expense increased to \$66,039 in 1999 compared to \$63,462 in 1998. This marginal increase in interest expense of 4% is mainly due to having a higher level of debt outstanding during 1999. Interest expense was covered by cash flow 7 times in 1999. The weighted average interest rate was 7.8% in 1999, compared to 7.7% in 1998, and interest expense per BOE increased 6% from \$1.24 per BOE to \$1.32 per BOE in 1999.

**Analysis of Interest Expense**

|                                         | 1999    | 1998    | %<br>Change |
|-----------------------------------------|---------|---------|-------------|
| Interest expense (\$)                   | 66,039  | 63,462  | +4          |
| Average long-term debt outstanding (\$) | 848,429 | 825,000 | +3          |
| Average annual interest rate (%)        | 7.8     | 7.7     | +1          |
| Interest expense (\$/BOE)               | 1.32    | 1.24    | +6          |

**DEPLETION, DEPRECIATION AND SITE RESTORATION**

Depletion and depreciation increased \$228,766, to \$935,001 during 1999 from an increase of \$213,742 to \$706,235 during 1998. On a production basis, in 1999 depletion and depreciation increased to \$4.56 per BOE, from \$4.18 per BOE in 1998. TRAFINA recorded a \$6,000 increase to \$26,380 in site restoration provisions, for 1999, compared to an increase of \$3,500 to \$20,380 in 1998.

**Analysis of Depletion, Depreciation and Site Restoration**

|                                     | 1999    | 1998    | %<br>Change |
|-------------------------------------|---------|---------|-------------|
| Depletion and depreciation (\$)     | 228,766 | 213,742 | +7          |
| Site Restoration (\$)               | 6,000   | 3,500   | +71         |
| Depletion and depreciation (\$/BOE) | 4.56    | 4.18    | +9          |
| Site Restoration (\$/BOE)           | 0.12    | 0.07    | +71         |

**INCOME TAXES**

Available tax pools after December 31, 1999 were \$809,053 compared to \$957,524 in 1998. No current income taxes were payable for 1999. The Corporation does not anticipate it will be taxable in 2000. Deferred taxes increased by \$90,985 to \$421,000 during 1999, compared to an increase of \$60,000 to \$330,015 in 1998.

**Analysis of Income Taxes**

|                                      | Deduction<br>Rate | 1999<br>\$       | 1998<br>\$       | %<br>Change |
|--------------------------------------|-------------------|------------------|------------------|-------------|
| Canadian exploration expense         | 100%              | 213,918          | 362,444          | -41%        |
| Canadian development expense         | 30%               | 175,208          | 204,425          | -14%        |
| Canadian oil & gas property expense  | 10%               | 14,843           | 590              | +2,416%     |
| Undepreciated capital cost allowance | 20% - 30%         | 304,873          | 289,854          | +5%         |
| Non capital loss carryforward        | 100%              | 100,211          | 100,211          | 0%          |
| <b>Available tax pools</b>           |                   | <b>\$809,053</b> | <b>\$957,524</b> | <b>-16%</b> |

### CASH FLOW FROM OPERATIONS

In 1999, cash flow from operations increased 26% to \$437,936, up from \$348,861 in 1998. This gain translated to \$0.09 per fully diluted common share, a 29% improvement over the \$0.07 per fully diluted common share recorded in 1998. Cash flow increases are chiefly a consequence of sharply higher oil and gas prices, accompanied by an increase in the volume of oil produced by TRAFINA during 1999.

### EARNINGS

TRAFINA's 1999 net earnings were \$112,185, a 57% increase over the \$71,619 recorded in 1998. On a fully diluted per share basis, the 1999 net earnings remained the same due to rounding off to the nearest cent at \$0.02. On a per-unit of production basis, 1999 earnings increased by 60% to \$2.24/BOE, compared to \$1.40/BOE in 1998.

### RETURN OF EQUITY

TRAFINA's pre-tax return on shareholder's equity increased in 1999 to 28% compared to 19% in 1998, an increase of 47%. The 1999 after-tax rate of return increased by 15%, up from 11% in 1998.

### BANK DEBT AND LIABILITY

TRAFINA has a total credit line of \$1.0 million of which \$787,858 was drawn at December 31, 1999. Current assets plus the unused portion of our advances exceed our current liabilities by 3.6 times. Cash flow of \$437,937 exceeds our 1999 annual interest payments by 6.9 times (1999 interest charges were \$66,039). TRAFINA's net debt to equity ratio decreased to 0.99 times, to December 31, 1999, compared to 1.20 times in 1998 net debt (long-term debt of working capital has been used in the 1999 and 1998 calculations).

### NET ASSET VALUE

TRAFINA's net (appraised) asset value at year-end of 1999 was **\$0.91** per share for each share outstanding and **\$0.83** in net asset value for each fully diluted share.

#### Analysis of Net Asset Value

|                                                             | 1999<br>\$       | 1998<br>\$       | %<br>Change |
|-------------------------------------------------------------|------------------|------------------|-------------|
| Proved reserves                                             | 4,035,860        | 4,779,011        | -9          |
| Probable reserves (risked at 50%)                           | 233,069          | 294,500          | -21         |
| Undeveloped land and other assets (estimated by management) | 275,000          | 165,000          | +21         |
| Working capital                                             | 70,537           | 96,911           | -27         |
| Long term debt                                              | (787,858)        | (909,000)        | -13         |
| <b>Total net asset value</b>                                | <b>3,826,608</b> | <b>4,426,422</b> | <b>-8</b>   |
| Asset value per outstanding share                           | 0.91             | 1.00             | -8          |
| Asset value per fully diluted share                         | 0.83             | 0.93             | -10         |

**SENSITIVITIES**

The following table sets out the sensitivities of TRAFINA's cash flow per share to changes in the prices of crude oil and natural gas, and changes in the production of crude oil and natural gas. These estimated sensitivities have no provisions for any capital requirements and other costs to arrive at each estimated cash flow per share.

| Change of              | Operating<br>Netback<br>Amount (\$) | Cash Flow<br>Per Share<br>(\$/sh) |
|------------------------|-------------------------------------|-----------------------------------|
| \$0.10/mcf natural gas | 41,000                              | 0.01                              |
| \$1.00/bbl             | 9,000                               | 0.00                              |
| 1 Mmcf/d natural gas   | 591,000                             | 0.14                              |
| 10 bbl/d crude oil     | 59,000                              | 0.01                              |

**QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

| 1999                                | 1Q      | 2Q      | 3Q      | 4Q      |
|-------------------------------------|---------|---------|---------|---------|
| Oil and gas revenue                 | 267,161 | 264,141 | 340,968 | 313,946 |
| Cash flow per basic common share    | 0.02    | 0.02    | 0.03    | 0.04    |
| - per fully diluted common share    | 0.02    | 0.01    | 0.03    | 0.04    |
| Net earnings per basic common share | 0.00    | 0.00    | 0.01    | 0.01    |
| - per fully diluted common share    | 0.00    | 0.00    | 0.01    | 0.01    |
| 1998                                | 1Q      | 2Q      | 3Q      | 4Q      |
| Oil and gas revenue                 | 194,237 | 220,397 | 218,632 | 352,566 |
| Cash flow per basic common share    | 0.01    | 0.02    | 0.01    | 0.04    |
| - per fully diluted common share    | 0.01    | 0.02    | 0.01    | 0.04    |
| Net earnings per basic common share | 0.00    | 0.00    | -0.01   | 0.01    |
| - per fully diluted common share    | 0.00    | 0.00    | -0.01   | 0.01    |
| 1997                                | 1Q      | 2Q      | 3Q      | 4Q      |
| Oil and gas revenue                 | 203,321 | 130,885 | 182,984 | 215,051 |
| Cash flow per basic common share    | 0.01    | 0.01    | 0.00    | 0.02    |
| - per fully diluted common share    | 0.01    | 0.01    | 0.00    | 0.02    |
| Net earnings per basic common share | 0.00    | -0.01   | -0.01   | 0.01    |
| - per fully diluted common share    | 0.00    | -0.01   | -0.01   | 0.01    |
| 1996                                | 1Q      | 2Q      | 3Q      | 4Q      |
| Oil and gas revenue                 | 131,604 | 74,741  | 131,640 | 166,988 |
| Cash flow per basic common share    | 0.00    | 0.00    | 0.01    | 0.01    |
| - per fully diluted common share    | 0.00    | 0.00    | 0.01    | 0.01    |
| Net earnings per basic common share | 0.00    | 0.06    | 0.00    | -0.02   |
| - per fully diluted common share    | 0.00    | 0.05    | 0.00    | -0.01   |

## MANAGEMENT'S REPORT

The financial statements of TRAFINA Energy Ltd., were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this annual report is consistent with that shown in the financial statements.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of financial statements for reporting purposes. Timely release of all financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgments made by management.

External auditors appointed by the shareholders have conducted an independent examination of the corporate accounting records in order to express their opinion of the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through its Audit Committee. The Audit Committee, consisting of a majority of non-management directors has met with the external auditors and management in order to determine that management has fulfilled its responsibilities to the preparation of the financial statements. The Audit Committee has reported its findings to the Board of Directors who have approved the financial statements.



Donald J. Douglas  
Chairman, Audit Committee



Roland T. Valentine  
Member, Audit Committee

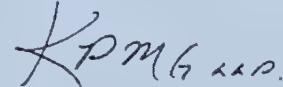
## AUDITORS' REPORT

To the Shareholders of  
TRAFINA Energy Ltd.

We have audited the balance sheet of TRAFINA Energy Ltd. as at December 31, 1999 and the statements of income (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



KPMG LLP  
Chartered Accountants

Calgary, Alberta  
April 30, 2000

**FINANCIAL STATEMENTS****BALANCE SHEETS  
AS AT DECEMBER 31,**

|                                       | 1999<br>\$       | 1998<br>\$       |
|---------------------------------------|------------------|------------------|
| <b>ASSETS</b>                         |                  |                  |
| Current                               |                  |                  |
| Accounts receivable                   | 139,572          | 109,673          |
| Alberta royalty tax credit receivable | 29,965           | 95,072           |
| Prepaid expenses                      | <u>9,468</u>     | <u>10,787</u>    |
|                                       | 179,005          | 215,532          |
| Capital assets (note 2)               | <u>1,913,908</u> | <u>1,841,578</u> |
|                                       | <u>2,092,913</u> | <u>2,057,110</u> |
| <b>LIABILITIES</b>                    |                  |                  |
| Current liabilities                   |                  |                  |
| Bank indebtedness                     | -                | 32,280           |
| Accounts payable                      | <u>108,468</u>   | <u>86,341</u>    |
|                                       | 108,468          | 118,621          |
| Long-term debt (note 3)               | 787,858          | 909,000          |
| Site restoration provision            | 26,380           | 20,380           |
| Deferred income taxes                 | <u>421,000</u>   | <u>330,015</u>   |
|                                       | <u>1,343,706</u> | <u>1,378,016</u> |
| <b>SHAREHOLDER'S EQUITY</b>           |                  |                  |
| Share capital (note 4)                | 315,298          | 329,676          |
| Retained earnings                     | <u>433,909</u>   | <u>349,418</u>   |
|                                       | <u>749,207</u>   | <u>679,094</u>   |
|                                       | <u>2,092,913</u> | <u>2,057,110</u> |

See accompanying notes

On behalf of the Board:



Director



Director

## STATEMENTS OF INCOME AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31,

|                                      | 1999             | 1998           |
|--------------------------------------|------------------|----------------|
|                                      | \$               | \$             |
| <b>REVENUES</b>                      |                  |                |
| Oil and gas sales                    | 1,186,216        | 985,832        |
| Royalties, net of ARTC               | (172,428)        | (136,365)      |
|                                      | <u>1,013,788</u> | <u>849,467</u> |
| <b>EXPENSES</b>                      |                  |                |
| Operating                            | 197,790          | 178,987        |
| General and administration           | 312,023          | 258,157        |
| Interest                             | 66,039           | 63,462         |
| Depletion, depreciation              | 228,766          | 213,742        |
| Site restoration                     | 6,000            | 3,500          |
|                                      | <u>810,618</u>   | <u>717,848</u> |
| Income before income taxes           | 203,170          | 131,619        |
| Provision for income taxes (note 5)  |                  |                |
| Deferred                             | (90,985)         | (60,000)       |
| Net income for the year              | 112,185          | 71,619         |
| Retained earnings, beginning of year | 349,418          | 277,799        |
| Redemption of common shares (note 4) | (27,694)         | 0              |
| Retained earnings, end of year       | <u>433,909</u>   | <u>349,418</u> |
| Net income per share                 |                  |                |
| Basic                                | 0.03             | 0.02           |
| Fully diluted                        | <u>0.02</u>      | <u>0.02</u>    |

See accompanying notes to the financial statements

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,

|                                                       | 1999<br>\$              | 1998<br>\$            |
|-------------------------------------------------------|-------------------------|-----------------------|
| <b>CASH PROVIDED BY (USED IN):</b>                    |                         |                       |
| Net income                                            | 112,185                 | 71,619                |
| Items not involving cash:                             |                         |                       |
| Depletion, depreciation and site restoration          | 234,766                 | 217,242               |
| Deferred income taxes                                 | 90,985                  | 60,000                |
| Cash flow from operations                             | <u>437,936</u>          | <u>348,861</u>        |
| Change in non-cash operating working capital (note 6) | <u>58,654</u>           | <u>(138,737)</u>      |
|                                                       | <u><u>496,590</u></u>   | <u><u>210,124</u></u> |
| <b>FINANCING:</b>                                     |                         |                       |
| Issuance (cancellation) of common shares              | (42,072)                | (13,287)              |
| Increase (decrease) in long-term debt                 | <u>(121,142)</u>        | <u>168,000</u>        |
|                                                       | <u><u>(163,214)</u></u> | <u><u>154,713</u></u> |
| <b>INVESTING:</b>                                     |                         |                       |
| Additions of capital assets                           | <u>(301,096)</u>        | <u>(387,714)</u>      |
| Decrease (increase) in bank indebtedness              | 32,280                  | (22,877)              |
| Bank indebtedness, beginning of year                  | (32,280)                | (9,403)               |
| Bank indebtedness, end of year-                       | <u>—</u>                | <u>(32,280)</u>       |
| Cash flow from operations per share                   | <u>0.10</u>             | <u>0.08</u>           |
| Fully diluted funds flow from operations per share    | <u>0.09</u>             | <u>0.07</u>           |

See accompanying notes to the financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### CAPITAL ASSETS

TRAFINA Energy Ltd. (the "Corporation") follows the full cost method of accounting for its oil and gas operations. All costs related to the acquisition of and exploration for petroleum and natural gas interest are capitalized. Such costs include land and lease acquisition costs, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells and capitalized general and administration costs reasonably allocated to these activities.

Proceeds from disposals are recorded as a reduction of the related expenditures without recognition of a gain or loss unless the disposal would result in a change of 20% or more in the depletion rate.

Capitalized costs are depleted and depreciated using the unit-of-production method based on the estimated proven reserves of oil and gas before royalties, as determined by independent engineers. For purposes of the depletion and depreciation calculation, natural gas reserves are converted to a petroleum equivalent unit at a rate of six thousand cubic feet of natural gas to one barrel of crude oil. The costs of unevaluated properties are excluded from the calculation until proved reserves are established or impairment occurs.

The Corporation applies a ceiling test to ensure that capitalized costs do not exceed estimated future net revenues from production of proven reserves at year end market prices less future production, administrative, financing, site restoration and income tax costs.

Office equipment is depreciated using the declining balance method at an annual rate of 20%.

#### SITE RESTORATION

Estimated future site restoration and removal costs, net of salvage values, are provided for using the unit-of-production method on estimated proven reserves. The annual charge is accounted for as an expense and the accumulated provision is accrued as a liability. Actual site restoration costs are deducted from the accumulated provision of the year incurred.

#### JOINT OPERATIONS

The majority of the oil and gas operations of the Corporation are conducted jointly with others and accordingly these financial statements reflect only the proportionate interest of the Corporation in such activities.

#### MEASUREMENT UNCERTAINTY

The amounts recorded for depletion and depreciation of oil and gas properties and for site restoration are based on estimated reserves and future costs. By their nature, these estimates, and those related to the future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

#### INCOME TAXES

The Corporation follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Corporation provides for deferred income taxes to the extent that income taxes otherwise payable are reduced by capital cost allowances and exploration and development costs in excess of depletion, depreciation and site restoration provisions recorded in the accounts.

#### STOCK BASED COMPENSATION PLAN

The Company has a Stock Option Plan, which is described in note 4. No compensation expense is recognized for this Stock option Plan when stock options are issued. Any consideration paid on the exercise of stock options is credited to share capital.

## 2. CAPITAL ASSETS

|                        | 1999                  |                |                  |
|------------------------|-----------------------|----------------|------------------|
|                        | Accumulated Depletion |                |                  |
|                        | Cost                  | & Depreciation | Net Book Value   |
|                        | \$                    | \$             | \$               |
| Oil and gas properties | 2,095,776             | 669,970        | 1,425,806        |
| Production equipment   | 648,642               | 211,059        | 437,583          |
| Office equipment       | 104,491               | 53,972         | 50,519           |
|                        | <u>2,848,909</u>      | <u>935,001</u> | <u>1,913,908</u> |
|                        | 1998                  |                |                  |
|                        | Accumulated Depletion |                |                  |
|                        | Cost                  | & Depreciation | Net Book Value   |
|                        | \$                    | \$             | \$               |
| Oil and gas properties | 1,897,328             | 501,345        | 1,395,983        |
| Production equipment   | 569,878               | 159,307        | 410,571          |
| Office equipment       | 80,607                | 45,583         | 35,024           |
|                        | <u>2,547,813</u>      | <u>706,235</u> | <u>1,841,578</u> |

During the year ended December 31, 1999, general & administrative expenses of approximately \$90,000 (Dec. 31, 1998 - \$130,000) were capitalized pertaining to the Corporation's exploration, development and property acquisition programs.

## 3. LONG TERM DEBT

|                           | 1999           | 1998           |
|---------------------------|----------------|----------------|
|                           | \$             | \$             |
| Revolving production loan | <u>787,858</u> | <u>909,000</u> |

The Corporation has a demand revolving operating credit facility with a Canadian chartered bank under which it can borrow up to \$1,000,000. The facility bears interest at the bank's prime rate plus one percent per annum. The loan is collateralized by a floating charge demand debenture in the amount of \$1,000,000 over the Corporation's capital assets and general assignment of book debts.

The revolving operating credit facility revolves until June 30, 2000 at which time the bank can convert the facility to a term facility with a term not to exceed five years. The bank has agreed not to demand repayment of the facility prior to January 1, 2001 and therefore the entire balance as at December 31, 1999 has been classified as long-term.

## 4. SHARE CAPITAL

### AUTHORIZED

Unlimited number of Class A voting common shares;  
 Unlimited number of Class B non-voting common shares; and  
 Unlimited number of preferred shares issuable in series.

### ISSUED

#### Class A common shares balance as at

|                                     | 1999             | 1998           |                  |                |
|-------------------------------------|------------------|----------------|------------------|----------------|
|                                     | #                | \$             | #                | \$             |
| Balance, beginning of year          | 4,379,250        | 329,676        | 4,511,250        | 342,963        |
| Repurchased and cancelled           | (191,000)        | (14,378)       | (173,250)        | (29,375)       |
| Issued for stock option exercised   | 0                | 0              | 0                | 0              |
| Issued for compensation of services | 0                | 0              | 41,250           | 16,088         |
| Total                               | <u>4,188,250</u> | <u>315,298</u> | <u>4,379,250</u> | <u>329,676</u> |

During the year ended December 31, 1999, the Corporation acquired 191,000 common shares for cash proceeds totaling \$42,072. As the consideration rendered was in excess of the states value of the shares, the amount in excess totaling \$27,694 was recorded as a reduction of retained earnings.

### OPTIONS

The Corporation has a stock option plan for officers, directors, consultants and key employees. At April 28, 1999, options exercisable until April 28, 2002, were outstanding to purchase 437,000 Class A common shares at a price of \$0.12 per share. On December 31, 1999, 437,000 Class A common shares were reserved for issuance under the plan. Options under the plan have a term of three years to expiry. The exercise price of each option equals the market price of the Corporation's common shares on the day before the date of the grant. Options outstanding at December 31, 1999 to acquire common shares of the Corporation are exercisable at a price of \$0.12 per share and expire until April 28, 2002.

|                          | 1999                           | 1998                       |                                |                |
|--------------------------|--------------------------------|----------------------------|--------------------------------|----------------|
|                          | Number of Options              | Exercise Price             | Number of Options              | Exercise Price |
| Stock option outstanding |                                |                            |                                |                |
| -beginning of year       | 453,000                        | \$0.22                     | 453,000                        | \$0.22         |
| Granted                  | 437,000                        | \$0.12                     | 0                              | \$0.00         |
| Exercised                |                                |                            |                                |                |
| Cancelled                | <u>(453,000)</u>               | <u>\$0.22</u>              | <u>0</u>                       | <u>\$0.00</u>  |
| Stock option outstanding |                                |                            |                                |                |
| - end of year            | <u>437,000</u>                 | <u>\$0.12</u>              | <u>453,000</u>                 | <u>\$0.22</u>  |
| Exercisable at year end  | <u>437,000</u>                 | <u>\$0.12</u>              | <u>151,000</u>                 | <u>\$0.22</u>  |
|                          | <u>Options Outstanding</u>     |                            | <u>Options Exercisable</u>     |                |
|                          | Number Outstanding at 12/31/99 | Remaining Contractual Life | Number Exercisable at 12/31/99 | Exercise Price |
|                          | <u>437,000</u>                 | <u>2.33</u>                | <u>437,000</u>                 | <u>\$0.12</u>  |

## 5. INCOME TAXES

The provision for income taxes differs from the amount that would have been expected by applying corporate income tax rate to income before taxes. The principal reasons for these differences are as follows:

|                                                  | 1999<br>\$    | 1998<br>\$     |
|--------------------------------------------------|---------------|----------------|
| Income before taxes                              | 203,171       | 131,619        |
| Statutory income tax rate                        | 44.62%        | 44.62%         |
| Anticipated tax provision                        | 90,654        | 58,728         |
|                                                  |               |                |
| Increase (decrease) in income tax resulting from |               |                |
| Non-deductible crown payments                    | 88,782        | 85,543         |
| Alberta royalty tax credit                       | (35,180)      | (42,421)       |
| Resource allowance                               | (55,473)      | (39,572)       |
| Other                                            | <u>2,201</u>  | <u>(2,278)</u> |
| Income taxes                                     | <u>90,985</u> | <u>60,000</u>  |

The Corporation has available for deduction against future taxable income, non-capital loss carry forwards, undepreciated capital costs, Canadian exploration expense, Canadian development expense and Canadian oil and gas property expense aggregating approximately \$809,000 (1998 - \$958,000).

## 6. CHANGES IN NON-CASH WORKING CAPITAL RELATED TO OPERATIONS

|                     | 1999<br>\$    | 1998<br>\$       |
|---------------------|---------------|------------------|
| Accounts receivable | 35,208        | (91,186)         |
| Prepaid expenses    | 1,319         | (7,912)          |
| Accounts payable    | <u>22,127</u> | <u>(37,639)</u>  |
|                     | <u>58,654</u> | <u>(138,737)</u> |

The following net cash payments have been included in the determination of earnings:

|               | 1999<br>\$ | 1998<br>\$ |
|---------------|------------|------------|
| Interest paid | 66,039     | 63,462     |

## 7. FINANCIAL INSTRUMENTS

Financial instruments of the Corporation consist mainly of accounts receivable, accounts payable and accrued liabilities, and long term debt. As at December 31, 1999, there are non-significant differences between the carrying amount of accounts receivable, accounts payable and accrued liabilities and long term debt and their estimated market values.

## CORPORATE INFORMATION

### OFFICERS

Roland T. Valentine, President  
Murray G. Coleman, Corporate Secretary  
David C. Yu, Controller

### DIRECTORS

Roland T. Valentine, Director <sup>(1)</sup>  
Donald J. Douglas, Director <sup>(1)</sup>  
J. Victor Rogers, Director <sup>(1)</sup>

<sup>(1)</sup> Member of the Audit Committee

### CORPORATE OFFICE

Suite 888, 505 - 3rd Street SW  
Calgary, Alberta T2P 3E6  
Telephone: (403) 263-0800  
Telefax: (403) 263-0811  
TRAFINA e-mail: [trafina@canada.com](mailto:trafina@canada.com)  
Roland Valentine e-mail: [rollyv@telusplanet.net](mailto:rollyv@telusplanet.net)

### BANK

The Bank of Nova Scotia  
Calgary Commercial Banking Centre and Main Branch  
240 - 8th Avenue SW  
Calgary, Alberta T2P 2N7

### LEGAL COUNSEL

Bennett Jones  
4500 Bankers Hall East  
855 - 2nd Street SW  
Calgary, Alberta T2P 4K7

### STOCK LISTING

Canadian Venture Exchange  
Trading symbol for Class A Common Shares  
"TFA•A"

### AUDITORS

KPMG LLP  
Chartered Accountants  
1200, 205 - 5th Avenue SW  
Calgary, Alberta T2P 4B9

### TRANSFER AGENT

Montreal Trust  
600, 530 - 8th Avenue SW  
Calgary, Alberta T2P 3S8

### ENGINEERING CONSULTANTS

Sproule Associates Limited  
Sun Life Plaza, #900, North Tower  
140 Fourth Avenue SW  
Calgary, Alberta T2P 3N3

Ryder Scott Company  
3700, 700 - 2nd Street SW  
Calgary, Alberta T2P 2W2

### IN MEMORIAL TO:

### JOHN T. VERNON, P.Eng.

John T. Vernon was  
Manager of Operations and Production  
with Trafina Energy Ltd. and passed  
away suddenly on May 15, 2000  
at the age of 52.

John will be sorely missed by his family,  
friends and colleagues.



# TRAFINA

E N E R G Y   L T D.

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Calgary, Alberta T2P 3E6